

## Message Text

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ACTION PM-07

INFO OCT-01 ARA-16 ISO-00 L-03 SP-03 H-03 CIAE-00 INR-10

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R 241520Z MAY 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 0198

INFO AMEMBASSY QUITO

AMEMBASSY SANTIAGO

USCINCSO

C O N F I D E N T I A L LIMA 4055

E.O. 11652: GDS

TAGS: MASS, PE, US

SUBJ: PERUVIAN ARMY REQUEST FOR ADDITIONAL ARMORED PERSONNEL

CARRIERS (APC'S)

REF: LIMA 3162; STATE 89307 (NOTAL)

1. MISSION IS FULLY AWARE THAT USG CONSIDERATION OF PERUVIAN ARMY REQUEST TO AUGMENT ITS ACTIVE FMS CASE FOR APC'S MUST TAKE INTO ACCOUNT ALL ASPECTS OF FMS ACT, INCLUDING WHETHER SUCH SALE WOULD BE CONSISTENT WITH FOREIGN POLICY INTERESTS OF US, ECONOMIC AND FINANCIAL CAPABILITY OF RECEIVING COUNTRY AND IMPACT OF SALES ON EXISTING OR INCIPIENT ARMS RACE. WE ARE CONFIDENT THAT DEPARTMENT WILL WEIGHT FOLLOWING FACTORS CAREFULLY IN REACHING DECISION WHETHER TO APPROVE OR DENY SALE OF ADDITIONAL VEHICLES.

A. CURRENT STATUS OF US-PERUVIAN RELATIONS: RECENT SIGNATURE OF AGREEMENT SETTling OUTSTANDING INVESTMENT DISPUTES (GREENE AGREEMENT) MARKED THE END OF A LONG PERIOD OF STRESS AND THE "START OF A NEW ERA" (A CHARACTERIZATION MADE BY PRIME MINISTER MERCADO)

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IN OUR RELATIONS. THE RETURN TO NORMALITY HAS BEEN

ACCOMPANIED BY SOME SIGNIFICANT MOVES ON OUR PART, SUCH AS APPROVAL OF SUBSTANTIAL EXIMBANK FINANCING FOR CUAJONE AND EXTENSION OF \$15 MILLION CCC WHEAT CREDIT. DISAPPROVAL OF SALE OF ADDITIONAL APC'S WOULD UNDOUBTEDLY BE INTERPRETED BY MILGOV AS REVERSAL OF OUR POLICIES AND AS EVIDENCE THAT US REMAINS RELUCTANT TO COOPERATE WITH PERU. IN ADDITION IT SHOULD BE RECALLED THAT REQUEST HAD COME DIRECTLY FROM ARMY CHIEF OF STAFF MORALES BERMUDEZ, WHO AS DEPARTMENT KNOWS IS PROBABLY NEXT PRIME MINISTER AND A POTENTIAL PRESIDENTIAL SUCCESSOR.

B. REGIONAL IMPLICATIONS: DENIAL OF ADDITIONAL APC'S AND RESULTING POSSIBLE ALIENATION OF GOP COULD ALSO ADVERSELY AFFECT OUR RECENTLY IMPROVED SITUATION IN HEMISPHERE AS RESULT OF "NEW DIALOGUE". AS DEMONSTRATED AT MEXICO CITY MFM, AND AGAIN IN WASHINGTON AND ATLANTA MEETINGS, PERU IS PLAYING IMPORTANT AND ON THE WHOLE CONSTRUCTIVE ROLE IN DEVELOPMENT OF THIS NEW HEMISPHERE RELATIONSHIP AND ITS STRONG OPPOSITION TO US PROPOSALS IN FUTURE OAS AND IN FOREIGN MINISTERS' MEETINGS COULD HAVE DISRUPTIVE EFFECT.

C. ANTECEDENTS: WHILE APC CASE IS NOT ENTIRELY COMPARABLE TO US REFUSAL IN 1966-67 TO SELL F-5 AIRCRAFT TO PERU, THERE ARE SOME PARALLELS. AT THAT TIME GOP NOT ONLY PROCEEDED BY BUY FAR MORE SOPHISTICATED AND EXPENSIVE MIRAGES FROM FRANCE BUT IT ALSO STRONGLY CRITICIZED US FOR WHAT IT DEEMED TO BE UNWARRANTED PATERNALISM AND INFRINGEMENT OF ITS SOVEREIGN RIGHT TO DETERMINE ITS SECURITY REQUIREMENTS. REFUSAL TO SELL ADDITIONAL APC'S COULD GENERATE A SIMILAR UNFAVORABLE REACTION.

D. ALTERNATE SUPPLY SOURCE: HAVING ALREADY DETERMINED ITS MILITARY NEED FOR APC'S AND FAILING TO OBTAIN THEM FROM US, MILGOV WOULD LIKELY TURN TO AN ALTERNATE SUPPLIER, POSSIBLY USSR OR SOME OTHER BLOC COUNTRY. USSR HAS ALREADY MADE SIGNIFICANT ENTRY INTO PERU THROUGH ITS TANK SALES AND MILITARY ADVISERS.

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EMBASSY HAS ALREADY ANALYZED FOREIGN POLICY IMPLICATIONS FOR US IN THIS REGARD. MOREOVER, FAILURE TO APPROVE ADDITIONAL APC'S COULD LEAD TO CANCELLATION OF ORIGINAL FMS CASE AS IT WOULD NOT MAKE LOGISTICAL SENSE TO PURCHASE ESSENTIALLY SAME ITEM FROM DIVERSE SOURCES (ALTHOUGH INDEED THIS HAS BEEN A FREQUENT PRACTICE OF PERUVIAN ARMED FORCES)

E. ABILITY TO PAY: THE APPROXIMATELY \$17 MILLION INVOLVED IN THE APC FMS CASE IS NOT OF SUFFICIENT MAGNITUDE TO POSE A SERIOUS FINANCIAL PROBLEM WITH REGARD TO GOP ECONOMIC CAPABILITIES.

F. ARMS RACE: WHETHER SALE OF ADDITIONAL APC'S EITHER BY THEIR NATURE OR NUMBERS INVOLVED, WOULD CONTRIBUTE TO TENSIONS IN AREA AND THEREFORE ENCOURAGE AN ARMS RACE IS MATTER WHICH WASHINGTON IS IN BETTER POSITION TO ASSESS, AS WE NOTED IN LIMA 3167. HOWEVER, WE DO NOT BELIEVE GOP WILL ABANDON PROCUREMENT AS RESULT OF ANY DECISION ON OUR PART NOT TO SELL. AT SAME TIME MISSION CONSIDERS THAT BY SPACING OUT DELIVERIES OVER NEXT FEW YEARS WE CAN GREATLY DIMINISH IMPRESSION OF A MASSIVE AND SUDDEN BUILD-UP OF PERUVIAN ARMY MOBILITY. WE HAVE EXPLAINED CAREFULLY TO GENERAL MORALES BERMUDEZ AND HIS STAFF THAT ADDITIONAL VEHICLES WOULD HAVE TO COME FROM END OF PRODUCTION AFTER ALL OTHER PREVIOUS COMMITMENTS ARE FULFILLED. ARMY STAFF REALIZES AND ACCEPTS THIS AND IS PREPARED TO WAIT. A GRADUAL ACQUISITION RATE IMPOSED BY PRODUCTION SCHEDULES WOULD HELP EASE POSSIBLE APPREHENSIONS ON PART OF PERU'S NEIGHBORS. ANOTHER CONSIDERATION IS THAT WE WILL HAVE AMPLE OPPORTUNITY TO REASSESS PERU'S INTENTIONS AS TO POTENTIAL USE OF THE APC'S LONG BEFORE THE PROJECTED ADDITIONAL APC'S COME OFF THE PRODUCTION LINE.

2. IN SUMMARY, MISSION CONSIDERS THAT IT IS IN OVERALL US POLICY INTERESTS TO APPROVE SALE OF ADDITIONAL APC'S TO PERU AND THAT ANY CONTRIBUTION TO A POTENTIAL ARMS RACE CAN BE KEPT UNDER CONTINUING REVIEW; ACCORDINGLY, MISSION RECOMMENDS APPROVAL OF SALE.

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## Message Attributes

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